GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2607
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FUNCTIONING OF PUBLIC SECTOR BANKS IN NE REGION
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Will the Minister of FINANCE be pleased to state:

(a) whether as per the study report of the Reserve Bank of India, there are several shortcomings in the functioning of the public sec:or banks operating in the North-Eastern region;

(b) if so, the details thereof;

(c) whether these banks have fixed different rates of interest on loans being advanced for setting up of small scale industries in this region;

(d) if so, the details thereof;

(e) whether the Government has issued any guidelines or formulated any scheme to improve the functioning of the branches of public sector banks operating in North-Eastern region and to bring uniformity in the interest rate s; and

(f) if so, the details thereof ?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE(SHRI PA WAN KUMAR BANSAL)

(a) and (b) : In order to .ichieve greater financial inclusion and enhancement of financial services in the North Eastern Region(NER) of the country and also to prepare a monitorabie action plan for the region, the Reserve Bank of [ndia (RBI)`had set up a Committee on Financial Sector Plan (CFSP) for the North Eastern Region.The Committee had observed that the main factors that impede banking and financial development are topography of the region, sparse settlements of population, infrastructural bottlenecks such as transport, communication and power, low level of commercialization, lack of entrepreneurship, law and order conditions in some parts of the NER, land tenure system especially in hilly areas, development strategy based on grants rather than loans, low network of branches, lack of simple customized and flexible financial products to suit the needs of the local population and poor loan recovery experience, etc.

(c) and (d) : RBI has deregulated the interest rates on advances above Rs, 2 lakh with effect from October 18, 1994. Interest :-ates are determined by the banks themselves with the approval of their Boards subject to Benchmark Prime Lending Rate (BPLR) and spread guidelines. In order to enhance transparency in pricing of their loan products, banks have been advised by the RBI to fix their BPLR after taking into account (i) actual cost of funds,(ii) operating expenses and (iii) a minimum margin to cover regulatory requirement of provisioning/capital charge and profit margin. a.nd ensure that the BPLR truly reflects the actual COST.. Individual banks, therefore, determine interest rates to be charged from a particular borrower subject to their BPLR and spread guidelines. However, loans up to Rs.2 lakh carry the prescription of not exceec ing the BPLR. Individual banks determine interest rates to be charged to a particular borrower subject tc their BPLR and. spread guidelines and, therefore, the rates of interest may differ from bank to bank.

(e) and (f) : The Committee on Financial Sector Plan (CFSP) for NER had also stressed upon the need for improving the infrastructure, creating a favorable investment climate, focusing on a few sectors of strategic advantage for develo oment and encouraging a favorable credit culture.The recommendations of the Committee for banks have mainly focused on increasing their outreach and use of informaticn technology for greater financial inclusion.The Committee had further suggested opening bank branches and currency chests in underserved regions in the NER where the potential is available and conducting widespread awareness campaigns for increased financial inclusion.